

U.S. Economic Outlook

April 8, 2021

Economic recovery: Full steam ahead

Over the last month, the contours of growth for 2021 came into sharper focus. Nonfarm employment rose by 916,000 in March, while consumer confidence hit its highest mark since the start of the pandemic. Measures of real-time consumer spending indicated a sharp acceleration in spending in the final weeks of March as stimulus checks made their way into consumers' pockets. The trends pointed toward solid economic growth to end the first quarter and signaled strong momentum going into Q2, which will likely be the strongest quarter of growth this year. Fiscal support from the most recent stimulus package combined with the ongoing vaccination campaign and reopening process are all culminating to help lift estimated Q2 GDP growth to 9.3 percent (annualized) following what we estimate was 6.6 percent growth in Q1. The outlook this month includes for the first time the president's \$2 trillion infrastructure package, which is expected to influence government spending and thus overall GDP growth in H2.

With such a robust start to this year, we now expect GDP growth to rise 6.1 percent relative to last year. The upgraded outlook this month reflects the faster than expected rebound in hiring activity and surprising pace of consumer spending. Turning the page to 2022, more modest rates of growth are expected, with GDP growth rising 3.4 percent. The economy will continue to benefit, however, from both fiscal support and the eventual return of services spending, which will keep the rate of growth next year above its longer-run average.

Key Takeaways

A booming economy to start the year

Labor market recovering faster than expected

Government spending to lift growth

Monetary policy timeline questioned

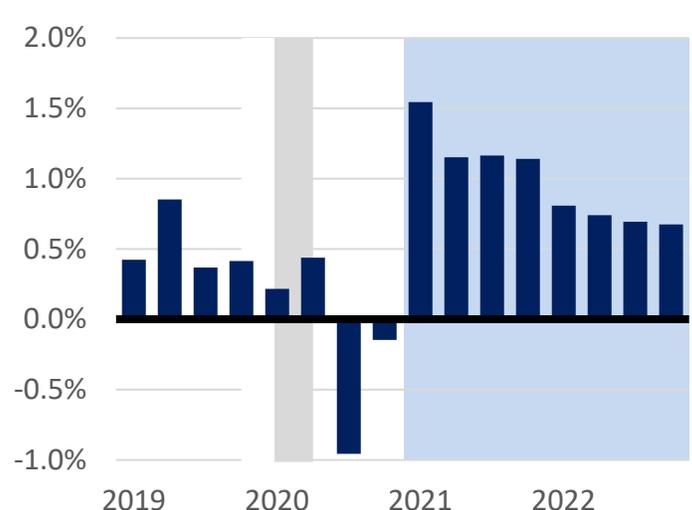
Real gross domestic product (GDP) (SA, CAGR and YoY* percent change)

Last forecast: April 8, 2021



Government contribution to GDP growth (Percentage points)

Last forecast: April 8, 2021



*Seasonally adjusted (SA), compound annualized growth rate (CAGR), year-over-year (YoY). Sources: Visa Business and Economic Insights and U.S. Department of Commerce.

Economic recovery: Full steam ahead (cont.)

Labor market rebound boosts spending

This month we upgraded our outlook for consumer spending to reflect both stronger stimulus effects and faster hiring activity than expected. We now expect the unemployment rate to reach 5.2 percent by the end of this year and 4.6 percent by the end of 2022. The stronger hiring activity will eventually begin to bring more individuals back into the work force.

As a result of our stronger labor market outlook, we have upgraded personal income growth as well. Nominal consumer spending is now expected to rise 18.9 percent YoY in Q2, in part due to the sharp contraction last year, but also as a result of stronger fundamentals including stronger income growth. Real disposable income is expected to climb 9.4 percent this year. Nominal consumer spending for this year is now expected to rise 10.2 percent YoY and 5.1 percent in 2022.

While the faster rebound in economic activity is good news, it does raise further concerns about the inflation environment later this year. The rise in inflation expectations has also boosted long-term interest rates. Both higher interest rates and inflation could create headwinds to consumer spending should global supply chains continue to struggle to meet U.S. demand.

Putting the “G” in GDP

In the first few months of the Biden administration and new Congress, a clear shift in the role of government spending and investment has materialized. The release of the president’s infrastructure proposal last week highlighted this change as we now expect the roughly \$2 trillion package to pass sometime in Q3 of this year. The result will lift both federal and state and local government investment in the second half of this year. It will also extend the influence of government spending on GDP—which began last year with multiple rounds of stimulus—into next year. We now expect government spending to contribute 0.7 percentage points to GDP growth this year and 0.9 percentage points in 2022.

Looking for liftoff

While we believe the Fed is unlikely to lift interest rates anytime soon, the faster pace of recovery certainly increases the risk that they could move up their timeline. The Fed has been clear that they are fine with inflation above their 2 percent target for some time, but that assumes the labor market will not make a full recovery. Should the acceleration in hiring activity continue, look for financial markets to start pricing in the possibility of less monetary accommodation later this year and into next.

Visa’s U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2020				2021				2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (CAGR)	-5.0	-31.4	33.4	4.3	6.6	9.3	3.6	3.2	2.2	-3.5	6.1	3.4
Personal Consumption	-6.9	-33.2	41.0	2.3	10.5	10.5	1.9	2.1	2.4	-3.9	7.1	2.7
Business Fixed Investment	-6.7	-27.2	22.9	13.1	8.3	4.7	4.1	4.2	2.9	-4.0	6.7	4.6
Equipment	-15.2	-35.9	68.2	25.4	5.8	5.9	5.7	5.4	2.1	-5.0	11.9	5.0
Intellectual Property Products	2.4	-11.4	8.4	10.5	7.6	4.9	3.8	4.3	6.4	1.7	5.7	5.7
Structures	-3.7	-33.6	-17.4	-6.2	1.8	0.7	0.4	0.3	-0.6	-11.0	-5.6	1.2
Residential Construction	19.0	-35.6	63.0	36.6	15.3	14.6	12.9	11.7	-1.7	6.1	18.9	10.2
Government Purchases	1.3	2.5	-4.8	-0.8	9.0	6.6	6.7	6.5	2.3	1.1	4.0	5.1
Net Exports Contribution to Growth (%)	1.1	0.6	-3.2	-1.5	-1.3	-0.8	-0.6	-0.7	-0.2	-0.1	-1.7	-0.7
Inventory Change Contribution to Growth (%)	-1.3	-3.5	6.6	1.4	-1.4	0.4	0.6	0.2	0.0	-0.6	0.6	0.2
Nominal Personal Consumption (YoY % Chg.)	1.9	-9.7	-1.7	-1.5	3.4	18.9	9.7	9.8	3.9	-2.7	10.2	5.1
Nominal Personal Income	3.2	10.7	6.8	4.0	13.2	8.8	13.2	16.4	3.9	6.1	12.8	4.0
Retail Sales Ex-Autos	2.5	-7.5	3.2	2.6	8.8	21.0	8.3	9.3	3.5	0.2	11.6	3.0
Consumer Price Index	2.1	0.4	1.2	1.2	1.8	3.4	3.4	4.1	1.8	1.2	3.2	2.9
Federal Funds Rate (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	2.19	0.25	0.25	0.25
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	5.28	3.54	3.25	3.25
10-Year Treasury Yield	0.70	0.66	0.69	0.93	1.74	1.78	1.88	1.92	2.14	0.89	1.83	1.99

Forecast as of: April 8, 2021

Interest rates presented are end of quarter rates

Note: Annual numbers represent year-over-year percent changes and annual averages

Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor and Federal Reserve.

Forward Looking Statements

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as “outlook,” “forecast,” “projected,” “could,” “expects,” “will” and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa’s business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise. Our forecast assumes the bulk of the negative effects of the COVID-19 outbreak will occur in the second quarter of this year with a gradual relaxing of social distancing guidelines over the second half of 2020.

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